

Water Fund 2012-2014 Rate Proposal

**Presentation to Seattle Public Utilities
and Neighborhoods Committee**

July 12, 2011

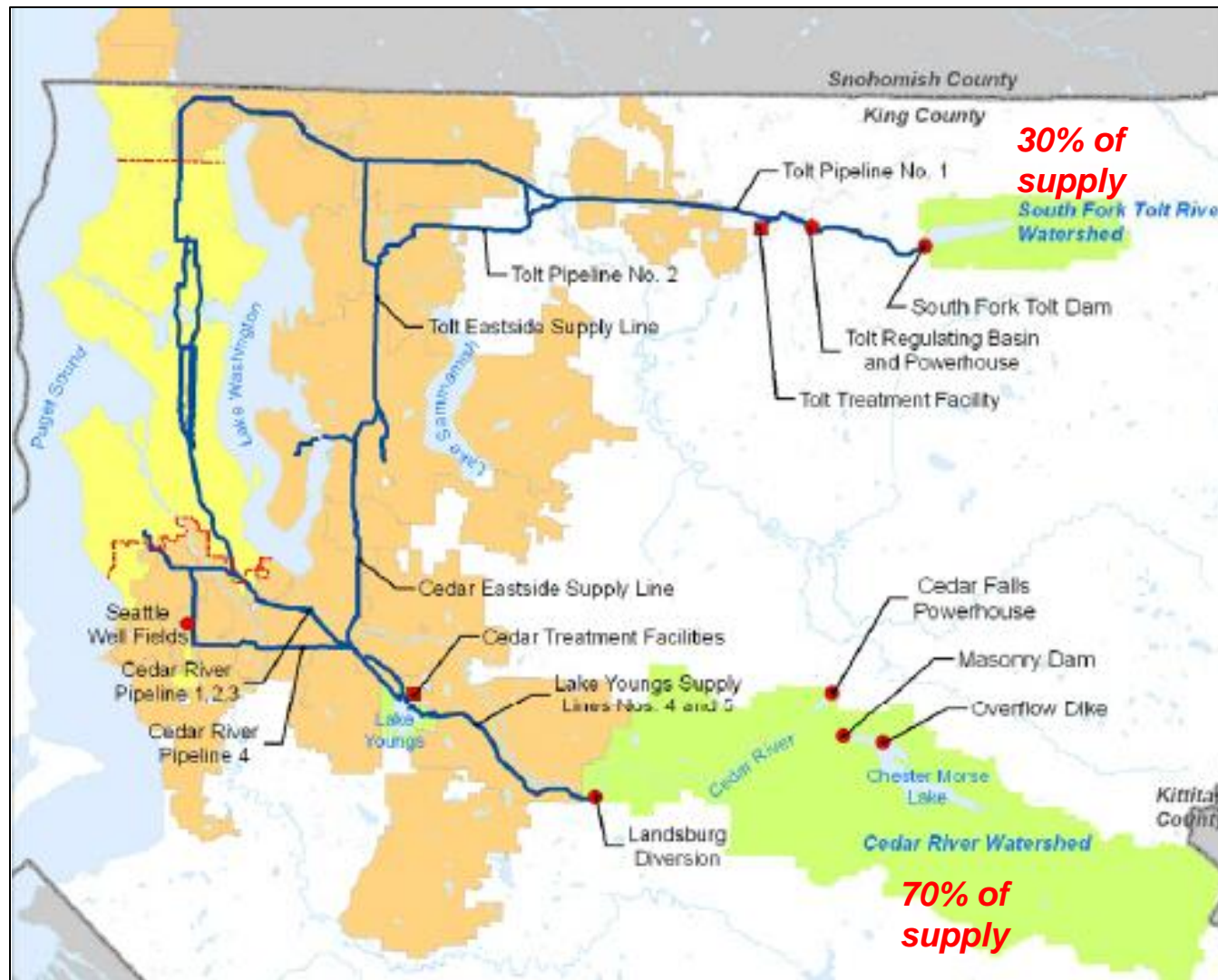


Topics

- ❑ **Water System & Recent Investment**
- ❑ **Recent Financial History**
- ❑ **2012-2014 Rate Proposal**
- ❑ **Financial Performance**

Water System & Recent Investment

Seattle's Regional Water System



**Seattle Retail
Service Area**

**Wholesale
Customers**

Watersheds

Looking Back - Water System (circa 1990)

- ❑ **Two large, unfiltered surface supplies**
- ❑ **10 open distribution reservoirs**
- ❑ **Single pipeline from Tolt watershed**
- ❑ **1950s Water Quality Lab**
- ❑ **1970s Control Center**
- ❑ **Potential ESA listings, reducing SPU's ability to use water from Cedar River.**
- ❑ **Projected need for new supply**

Water System

Four Major Investment Areas (since 1990)

- ❑ **Supply Certainty**
- ❑ **Water Quality and Treatment**
- ❑ **Transmission**
- ❑ **Distribution**

Supply Certainty

Cedar River Watershed HCP

Provides legal certainty under the Endangered Species Act for the City's continued operations within the Cedar River Watershed.



- ❑ **\$100 million over 50 years - \$60 million in the first decade**
- ❑ **Approximately 30 capital projects and 60 O&M activities in three areas:**
 - ❑ **Management of instream flows for people and fish**
 - ❑ **Forest and land conservation activities**
 - ❑ **Mitigation for the blockage of salmon and steelhead**

Water Quality and Treatment

Underground Reservoir Program

- ❑ Replacement of open reservoirs with underground structures
- ❑ Improves water quality
- ❑ Increases security and public health protection
- ❑ Allows SPU to meet water storage needs while reducing the size of some reservoirs and closing one or two others
- ❑ Provides 76 acres of new open space for Seattle Parks & Recreation to work with communities on new parks and recreation facilities



Water Quality and Treatment

Source Water Treatment



Cedar Treatment Plant (\$101 million)



Tolt Treatment Facility (\$91 million)



Transmission

Tolt Pipeline #2

Drivers

- ❑ Tolt Pipeline #1 burst in 1987, undermining confidence in the Tolt supply and reducing the capacity of the Tolt system
- ❑ Revised growth projections for Eastside communities

Solution

Construct 16-mile Tolt Pipeline #2 and replace key sections of Tolt Pipeline #1 (\$100 million)



Benefits

Tolt transmission system is highly reliable and interconnected, with capacity for decades into the future (given demand reductions in recent years).

Transmission and Distribution Control Center

1970s Control Center

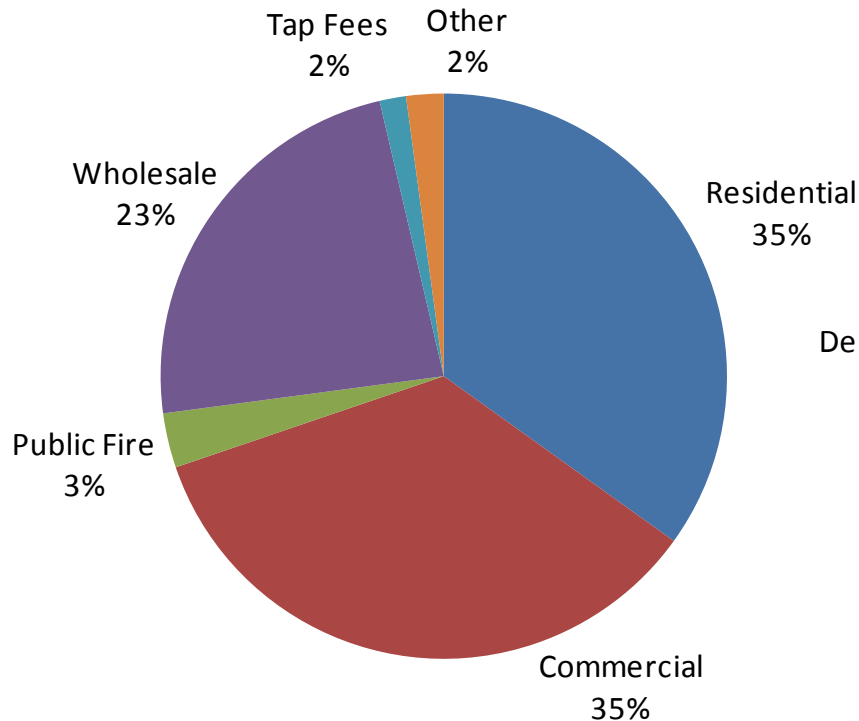


**New Control Center
(Capacity to add
Drainage & Wastewater)**

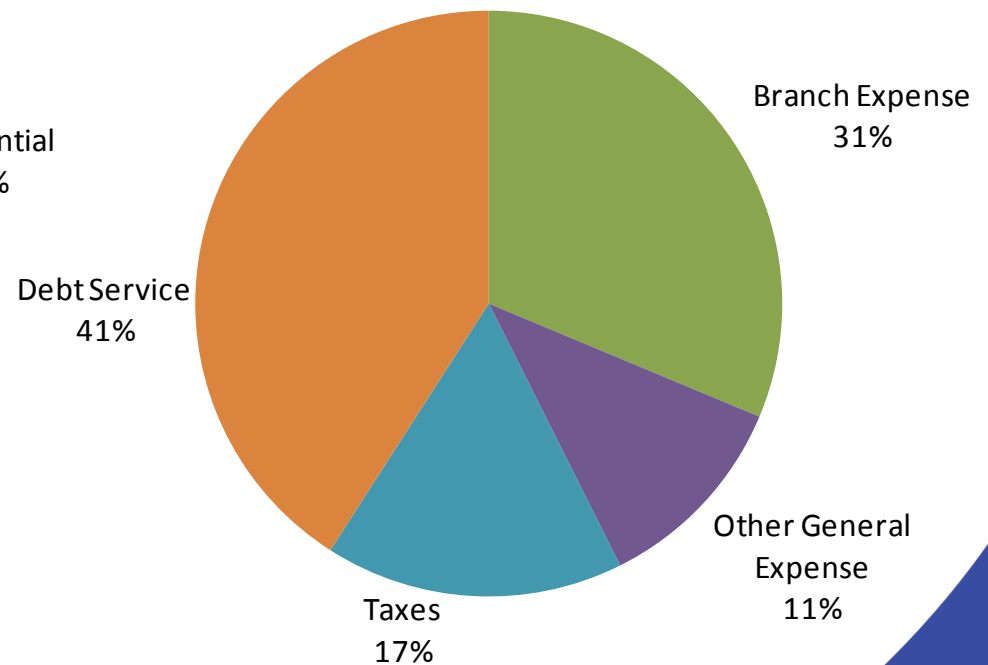
Recent Financial History

2011 Water Fund Sources & Uses

Operating Revenue
\$192 million

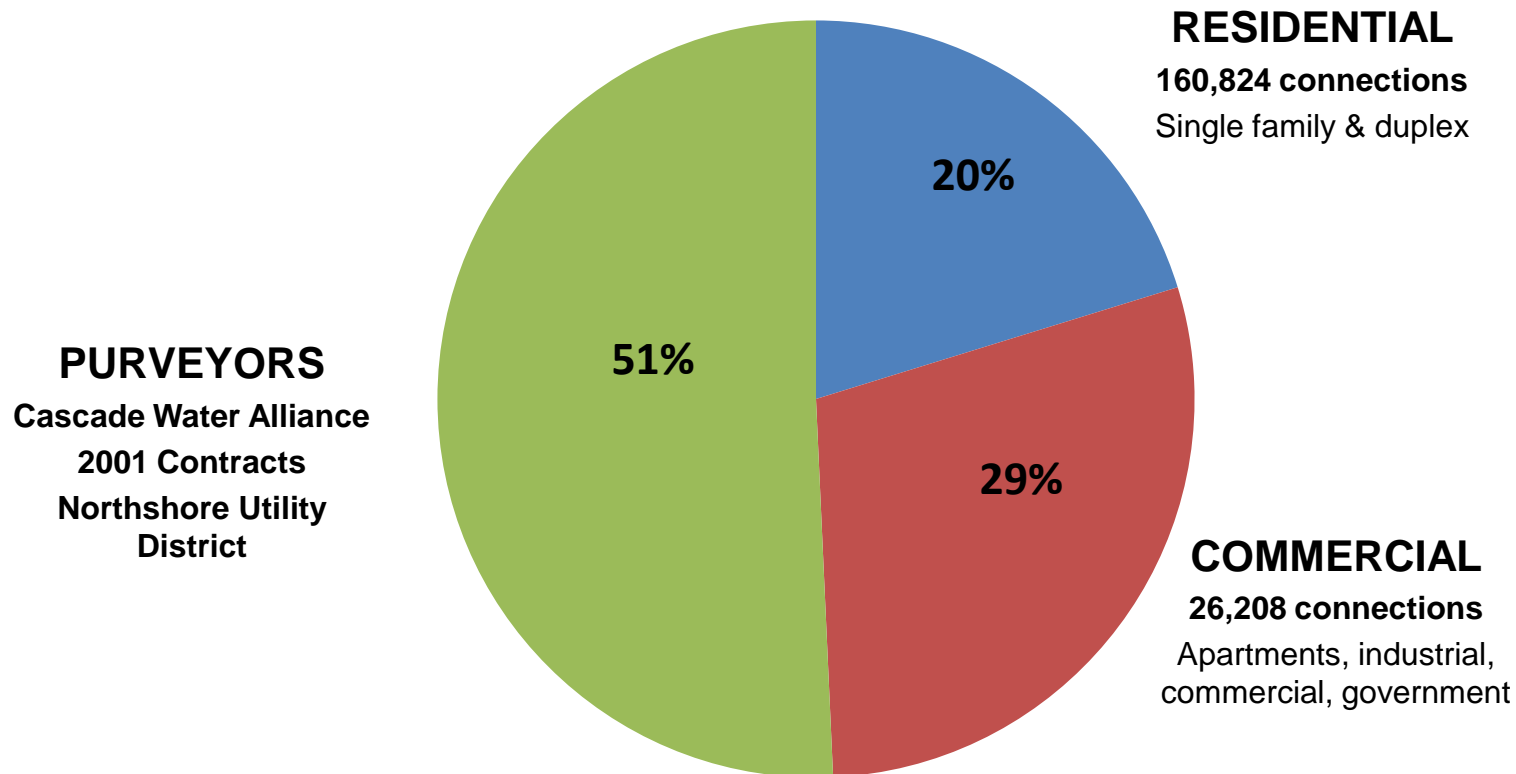


Operating Expense
\$196 million

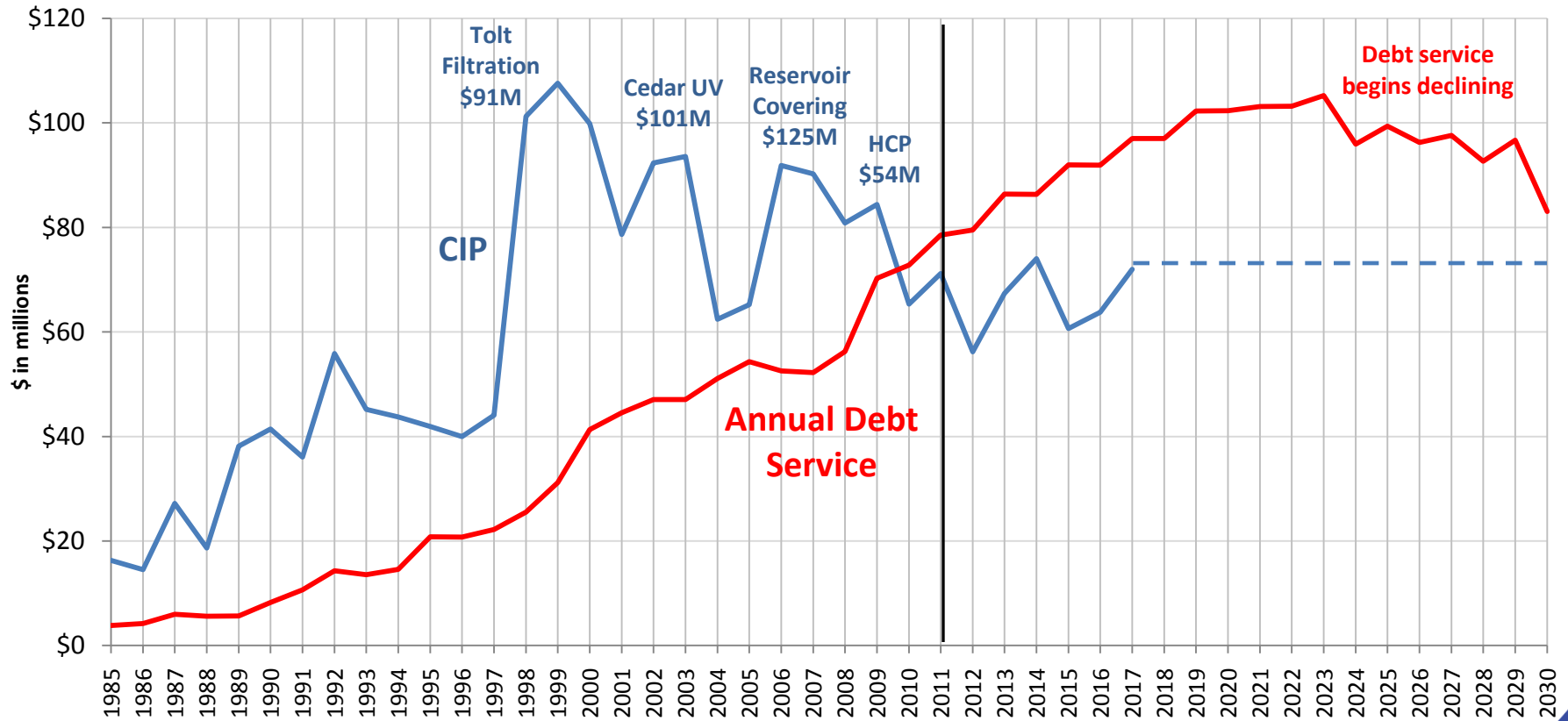


Water System Customers

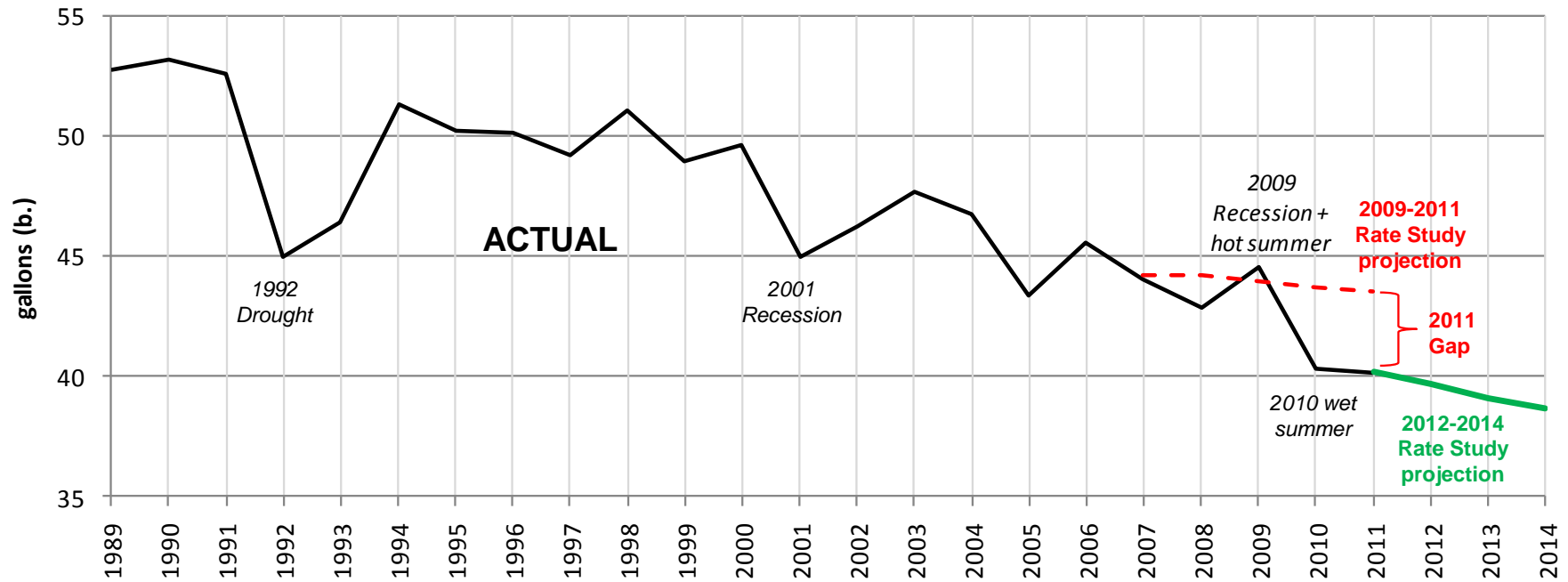
2010 Billed Water Consumption
53.9 million ccf (hundred cubic feet)



Capital Improvement Program vs. Annual Debt Service

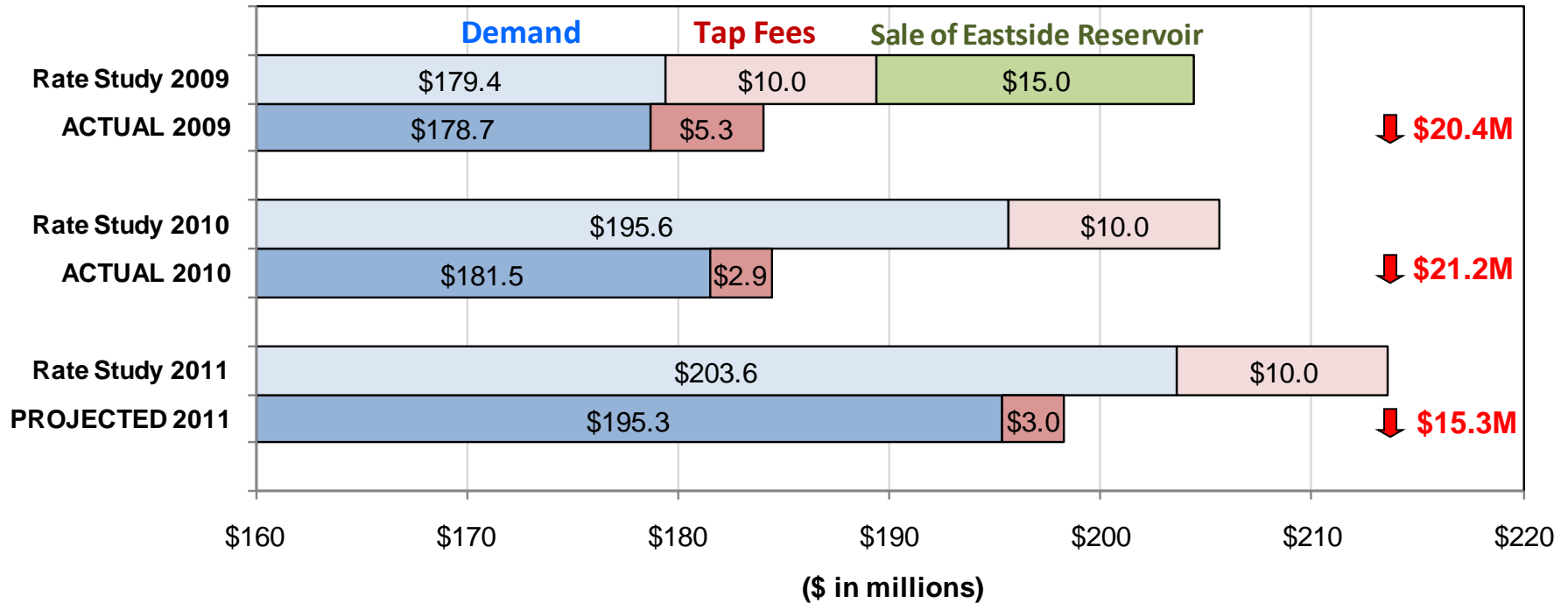


1989-2014 Billed Water Consumption



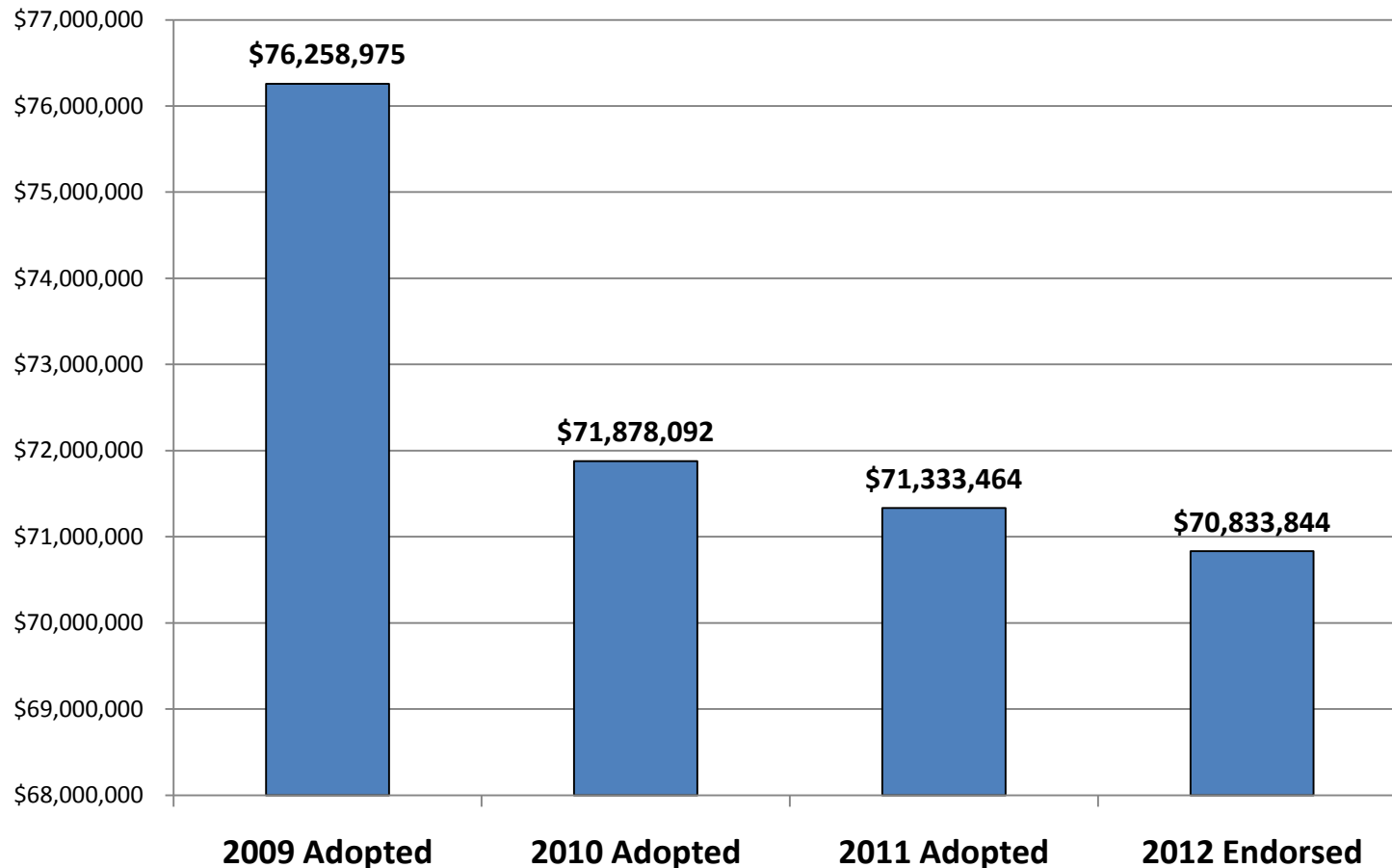
2009-2011 Revenues

Rate Study vs. Actual/Projected



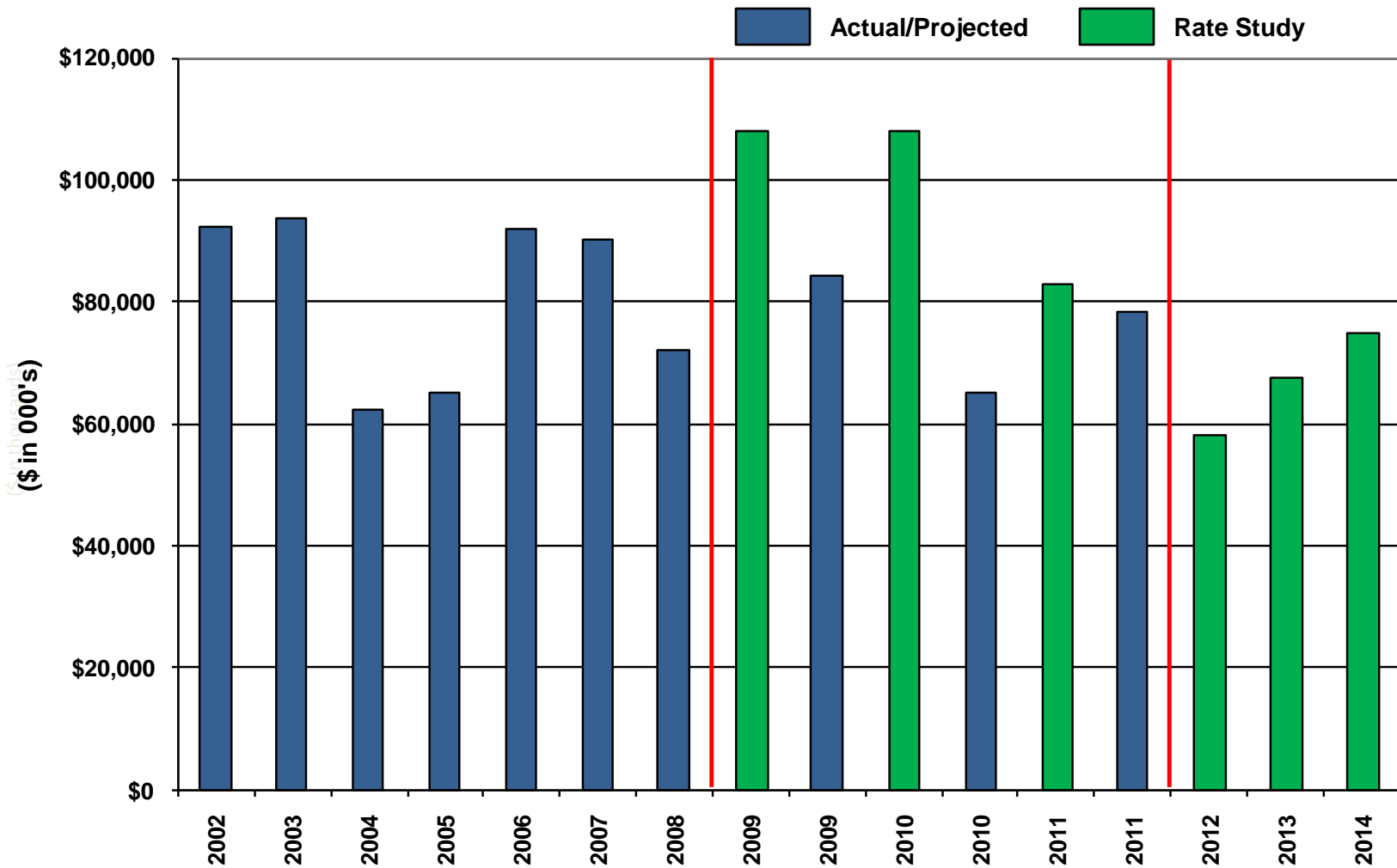
Branch Operations & Maintenance Budget

Water Fund



* Does not include General Expense, Taxes, Debt Service or G&A credit

Water Fund Annual CIP



2012-2014 Rate Proposal

Water Rate Structure Objectives

- ☐ **Revenue sufficiency and stability**
- ☐ **Customer equity**
- ☐ **Customer understandability**
- ☐ **Promotion of conservation**
- ☐ **Affordability for low income**
- ☐ **Economic efficiency**

2012-2014 Rate Proposal Overview

- **Increases driven by continued decline in water demand and tap fee revenues, plus requirement to meet debt service coverage target by 2014**
- **Increase in typical monthly residential bill**

2012	\$2.41
2013	\$2.68
2014	\$2.91
- **Wholesale rates developed in accordance with contracts, reviewed by an outside rate consultant and the wholesale customer operating board**

Operations & Maintenance Costs

- **Base O&M**

- Healthcare, retirement
- City central costs
- Inflation

- **New O&M**

- Morse Lake Temporary Pump Plant
- Deferred Maintenance
- Hatchery Decommissioning
- Watermain Condition Assessment
- Customer Billing System & Other

Water Rate Structure

- **Monthly Base Meter Charge**
 - “Fixed” portion of revenues not affected by weather
 - Based on meter size
 - Represents 38% of Residential revenue and 10% of Commercial revenue
- **Consumption Rates**
 - **Peak** (May 16 - Sep 15) vs. **Offpeak** (Sep 16 – May 15)
 - Residential block rates in peak period

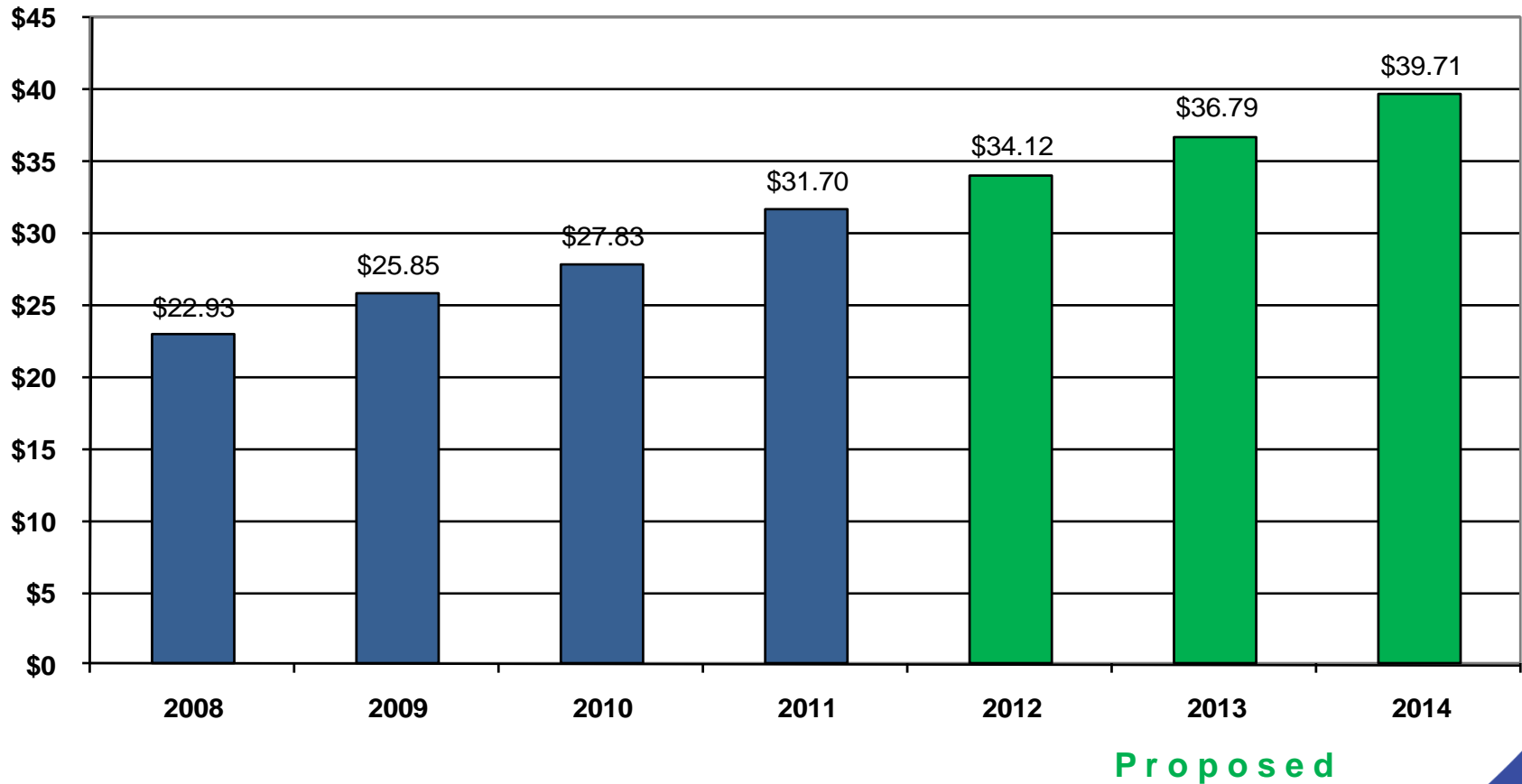
Proposed Rate Summary

	2011 <u>Adopted</u>	2012 <u>Proposed</u>	2013 <u>Proposed</u>	2014 <u>Proposed</u>
BASE SERVICE CHARGE (\$ per month)				
<u>Residential & Commercial</u>				
3/4" meter	\$13.00	\$13.25	\$13.50	\$13.75
1" meter	\$13.40	\$13.65	\$13.90	\$14.20
1 1/2" meter	\$20.70	\$21.05	\$21.45	\$21.85
2" meter	\$22.90	\$23.35	\$23.75	\$24.20
3" meter	\$84.70	\$86.35	\$88.00	\$89.65
4" meter	\$121.40	\$123.75	\$126.10	\$128.45
COMMODITY CHARGE (\$ per ccf)				
<u>Residential</u>				
Offpeak (Sep 16 - May 15)	\$3.62	\$4.07	\$4.58	\$5.14
Peak (May 16 – Sep 15)				
Up to 5 ccf	\$3.98	\$4.38	\$4.82	\$5.30
Next 13 ccf	\$4.63	\$5.19	\$5.81	\$6.51
Over 18 ccf	\$11.80	\$11.80	\$11.80	\$11.80
<u>Commercial</u>				
Offpeak (Sep 16 - May 15)	\$3.62	\$4.07	\$4.58	\$5.14
Peak (May 16 – Sep 15)	\$4.63	\$5.19	\$5.81	\$6.51

Typical Change in Monthly Water Bill

	<u>Typical ccf per month</u>	<u>2011 Typical Bill</u>	<u>2012 Proposed Change</u>	<u>2013 Proposed Change</u>	<u>2014 Proposed Change</u>
Residential	5	\$31.70	\$2.41	\$2.68	\$2.91
Small Restaurant	19	\$88.37	\$9.84	\$11.00	\$12.20
Convenience Store	20	\$92.81	\$10.06	\$11.26	\$12.48
Large Restaurant	254	\$1,098.99	\$122.34	\$136.78	\$151.77
Downtown Hotel	662	\$2,823.04	\$314.25	\$351.36	\$389.85

Typical Residential Monthly Water Bill



Financial Performance

Financial Policies

(\$ in millions)	Target	Actual 2009	Actual 2010	Projected 2011	Proposed 2012	Proposed 2013	Proposed 2014
Debt Service Coverage	1.70 x	1.64	1.59	1.45	1.57	1.57	1.70
Cash Financing of CIP	20% over rate period	16%	22%	16%	30%	25%	35%
						30%	
Year-End Operating Cash	1 Mo. Oper Exp	\$8.2	\$8.4	\$7.1	\$7.5	\$7.9	\$8.1
Net Income	Positive	\$5.9	\$0.7	(\$2.6)	\$5.8	\$7.8	\$16.5
RSF Withdrawal		\$0.0	\$3.0	\$1.4	\$0.0	\$0.0	\$0.0

All financial policies projected to be met by 2014

SPU Current Bond Ratings

	S&P	Moody's
Prime Maximum Safety	AAA	Aaa
High Grade High Quality	AA+ WATER / DWW AA Solid Waste AA-	Aa1 WATER / DWW Aa2 Aa3 Solid Waste
Upper Medium Grade	A+ A A-	A1 A2 A3
Lower Medium Grade	BBB+ BBB BBB-	Baa1 Baa2 Baa3
Non Investment Grade	BB+	Ba1

Summary

- ❑ **Proposed rates reflect recent reductions in O&M and CIP, while maintaining current service levels**
- ❑ **Proposed rates address decrease in revenues due to economy and decline in demand**
- ❑ **Proposed rates target meeting all financial policies by 2014**